

**VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
COUNTY OF SAN DIEGO
VALLEY CENTER, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2008

**Wilkinson Hadley King & Co. LLP
CPA's and Advisors
250 E. Douglas Ave
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Introductory Section

Valley Center-Pauma Unified School District
Audit Report
For The Year Ended June 30, 2008

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Audit Report
For The Year Ended June 30, 2008

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Financial Section

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Independent Auditor's Report on Financial Statements

Board of Trustees
Valley Center-Pauma Unified School District
Valley Center, California 92082

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Center-Pauma Unified School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Valley Center-Pauma Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Center-Pauma Unified School District as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008, on our consideration of Valley Center-Pauma Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Valley Center-Pauma Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wilkinson Hadley King & Co., LLP

El Cajon, California
November 21, 2008

**VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

This discussion and analysis of the Valley Center-Pauma Unified School District's financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should review this in conjunction with the District's financial statements.

USING THESE FINANCIAL STATEMENTS

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Valley Center-Pauma Unified School District as a complex financial entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole district, presenting both an aggregate view of the district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2007/08 are as follows:

- Total net assets of \$67,224,380 an increase of \$3,304,661 over the prior year.
- Total revenues of \$44,882,926 an increase of \$1,479,383 over the prior year.
- Total expenses of \$43,316,613 an increase of \$232,201 over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual audit report consists of three parts: Management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include different kinds of statements which present both a view of the district as a whole, and individual fund statements that focus on various parts of the district's operations in more detail. The financial statements also include notes that explain some of the information presented in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

**VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

REPORTING THE DISTRICT AS A WHOLE FINANCIAL ENTITY

Statement of Net Assets and Statement of Activities

While this document contains several funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007-2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and all liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or disbursed.

These two statements report the district's net assets and changes in those assets. This change in net assets is important because it tells the reader whether, for the district as a whole, the financial position of the district has improved or diminished.

In the Statement of Net Assets and the Statement of Activities, the district is presented in just one kind of activity, Governmental Activities. All the district's programs and services are reported here including instructional, support services, and operation and maintenance of plant and facilities.

REPORTING THE DISTRICTS MOST SIGNIFICANT INDIVIDUAL FUNDS

Fund Financial Statements

Major Funds: The analysis of the districts major funds is included in the audit report. Fund financial reports provide detailed information about the district's major funds. The district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the most significant funds. The major governmental fund, which accounts for most of the day-to-day programs and services provided by the district, are the General Fund and the Capital Facilities Fund.

Governmental Funds: Most of the district's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the district's general government operations and the basic services it provides. Governmental fund information helps you determine the financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

VALLEY CENTER-PAUMA UNIFIED AS A COMPLETE FINANCIAL ENTITY

Recall that the Statement of Net Assets provides the perspective of the district as a whole. Table I provides a summary of the district's net assets for 2007-2008.

Table 1
Statement of Net Assets
June 30, 2008

	<u>2006-2007</u>	<u>2007-2008</u>	<u>% Change</u>
Assets			
Cash in county treasury	\$ 6,731,976	\$ 6,251,516	
Cash on hand and in banks	552,337	726,208	
Cash in revolving fund	52,500	52,500	
Receivables	2,622,639	5,412,850	
Stores inventory	152,462	123,326	
Capital assets:			
Land	4,129,331	4,129,331	
Buildings	66,343,995	66,631,076	
Equipment	3,552,802	5,462,931	
Work in progress	-	917,292	
Less accumulated depreciation	<u>(15,905,218)</u>	<u>(17,734,355)</u>	
Total Assets	<u>\$ 68,232,824</u>	<u>\$ 71,972,675</u>	5.48%
Liabilities			
Accounts payable and other current liabilities	\$ 647,683	\$ 1,664,665	
Deferred revenue	401,512	160,550	
Long-term liabilities:			
Due within one year	475,268	476,725	
Due in more than one year	<u>2,788,642</u>	<u>2,446,355</u>	
Total Liabilities	<u>\$ 4,313,105</u>	<u>\$ 4,748,295</u>	10.09%
Net Assets			
Net Investments	54,996,172	50,841,368	
Restricted for:			
Capital projects	-	925,436	
Debt service	-	726,208	
Educational programs	8,923,547	2,459,183	
Other purposes (expendable)	-	52,464	
Unrestricted	<u>-</u>	<u>12,219,721</u>	
Total Net Assets	<u>\$ 63,919,719</u>	<u>\$ 67,224,380</u>	5.17%

Revenue in the Governmental Funds is divided into general revenue, which funds the basic ongoing instructional program and related support services, and program revenue, which funds specific program activities that support the children enrolled in Valley Center-Pauma Unified's schools.

**VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Table 2
Revenue – Governmental Activities

	<u>2006-2007</u>	<u>2007-2008</u>	<u>% Change</u>
General revenue	\$ 32,613,340	\$ 34,535,189	
Program revenue & fees for services	10,790,203	10,347,737	
Total revenue	<u>\$ 43,403,543</u>	<u>\$ 44,882,926</u>	3.41%

The primary sources of general revenue are the state revenue limit and local property tax revenue. The primary sources of program revenue are the state of California and the federal government, which fund many programs operated by the district, and fees collected for meals and transportation.

Table 3
Expenditures – Governmental Activities

	<u>2006-2007</u>	<u>2007-2008</u>	<u>% Change</u>
Classroom instruction	\$ 24,035,470	\$ 24,309,622	
Instruction related services	4,987,349	4,880,792	
Pupil services	5,142,842	5,001,830	
Community services	10,222	11,882	
General administration	2,527,851	2,768,023	
Plant services	4,090,860	4,212,388	
Interest on long-term debt	395,574	445,653	
Other outgo	201,106	44,729	
Depreciation	1,693,138	1,641,694	
Total Expenditures	<u>\$ 43,084,412</u>	<u>\$ 43,316,613</u>	0.54%

THE GENERAL FUND OPERATING BUDGET

Information about the district's major fund, the General Fund, is shown later in this report. This fund is accounted for using the modified accrual basis of accounting. The district's budget is prepared according to California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

During the course of the 2007-2008 fiscal year, the district revised its general fund budget on occasion to better reflect new grants and awards, and to portray the most current state and federal budget projections, as that information became available. Interim reports are used for budget revisions and are presented to the Governing Board for review and approval at regularly scheduled Board meetings.

**VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

CAPITAL ASSETS

At the end of the 2007-2008 fiscal year, the district had \$77,140,630 invested in land, buildings, work-in-progress, and capital equipment. Depreciation totaling \$17,734,355 was charged against the value of those assets for net capital assets of \$59,406,275.

CURRENT FINANCIAL RELATED ACTIVITIES

Over the years, the Valley Center-Pauma Unified School District has maintained a strong, financially responsible budget. Each year the district takes a very careful look at revenue and expenditure projections on a multi-year basis, and adjusts its budget accordingly, to maintain an acceptable and safe reserve balance. As the preceding information shows, assets are substantial and the amount of debt paid from general revenues is a very small percentage of the overall budget. However, the financial future is full of challenges due to the district's dependence on the state of California for the bulk of its general operating revenue.

The fiscal year 2008-2009 will be a challenging year for the Valley Center-Pauma Unified School District, as it faces another year of declining enrollment, deficits in revenue, and mid-year budget cuts from the State.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Pamela Moe, Chief Business Official at Valley Center-Pauma Unified School District, 28751 Cole Grade Road, Valley Center, CA 92082, (760) 749-0464 or e-mail to moe.pa@vcpusd.net.

Basic Financial Statements

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT**STATEMENT OF NET ASSETS**

JUNE 30, 2008

	Governmental Activities
ASSETS:	
Cash in County Treasury	\$ 6,251,516
Cash on Hand and in Banks	726,208
Cash in Revolving Fund	52,500
Accounts Receivable	5,412,850
Stores Inventories	123,326
Capital Assets:	
Land	4,129,331
Buildings	66,631,076
Equipment	5,462,931
Work in Progress	917,292
Less Accumulated Depreciation	(17,734,355)
Total Assets	<u>71,972,675</u>
LIABILITIES:	
Accounts Payable	1,664,665
Deferred Revenues	160,550
Long-Term Liabilities:	
Due Within One Year	476,725
Due in More Than One Year	<u>2,446,355</u>
Total Liabilities	<u>4,748,295</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	50,841,368
Restricted For:	
Capital Projects	925,436
Debt Service	726,208
Educational Programs	2,459,183
Other Purposes (expendable)	52,464
Unrestricted	<u>12,219,721</u>
Total Net Assets	<u>\$ 67,224,380</u>

The accompanying notes are an integral part of this statement.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Government Activities:				
Instruction	\$ 24,309,622	\$ 354,446	\$ 5,771,542	\$ 6,921
Instruction-Related Services	4,880,792	101,434	1,058,589	-
Pupil Services	5,001,830	622,609	2,116,689	-
General Administration	2,768,023	16,582	96,501	-
Plant Services	4,212,388	170	191,194	-
Community Services	11,882	-	7,971	-
Interest on Long-Term Debt	445,653	-	-	-
Other Outgo	44,729	-	3,089	-
Depreciation (unallocated)	1,641,694	-	-	-
Total Governmental Activities	43,316,613	1,095,241	9,245,575	6,921
Total Primary Government	\$ 43,316,613	\$ 1,095,241	\$ 9,245,575	\$ 6,921

General Revenues:

Taxes and Subventions

Federal and State Revenues, not restricted

Interest and Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Adjustment to Beginning Balance

Net Assets - Beginning, after adjustment

Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense)
Revenue and
Changes in
Net Assets

Governmental
Activities

\$ (18,176,713)
(3,720,769)
(2,262,532)
(2,654,940)
(4,021,024)
(3,911)
(445,653)
(41,640)
(1,641,694)

(32,968,876)

(32,968,876)

16,060,510
16,886,475
432,255
1,155,949

34,535,189
1,566,313
63,919,719
1,738,348

65,658,067
\$

67,224,380

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2008

	General Fund	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash in County Treasury	\$ 3,417,392	\$ 1,644,444	\$ 1,189,680	\$ 6,251,516
Cash on Hand and in Banks	-	-	726,208	726,208
Cash in Revolving Fund	50,000	-	2,500	52,500
Accounts Receivable	5,210,875	13,738	188,237	5,412,850
Due from Other Funds	63,488	-	92,210	155,698
Stores Inventories	76,279	-	47,047	123,326
Total Assets	<u>\$ 8,818,034</u>	<u>\$ 1,658,182</u>	<u>\$ 2,245,882</u>	<u>\$ 12,722,098</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 645,346	\$ 732,746	\$ 181,433	\$ 1,559,525
Due to Other Funds	99,873	-	55,825	155,698
Deferred Revenue	160,550	-	-	160,550
Total Liabilities	<u>905,769</u>	<u>732,746</u>	<u>237,258</u>	<u>1,875,773</u>
Fund Balance:				
Reserved Fund Balances:				
Reserve for Revolving Cash	50,000	-	2,500	52,500
Reserve for Stores Inventories	76,280	-	47,046	123,326
Reserve for Legally Restricted Balance	2,407,237	-	-	2,407,237
Designated Fund Balances:				
Designated for Economic Uncertainties	1,185,502	-	-	1,185,502
Designated for Unrealized Gains	-	-	601,980	601,980
Other Designated	4,193,246	925,436	1,254,635	6,373,317
Unreserved, reported in nonmajor:				
Special Revenue Funds	-	-	102,463	102,463
Total Fund Balance	<u>7,912,265</u>	<u>925,436</u>	<u>2,008,624</u>	<u>10,846,325</u>
Total Liabilities and Fund Balances	<u>\$ 8,818,034</u>	<u>\$ 1,658,182</u>	<u>\$ 2,245,882</u>	<u>\$ 12,722,098</u>

The accompanying notes are an integral part of this statement.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total fund balances - governmental funds balance sheet \$ 10,846,325

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets relating to governmental activities, at historical cost:	77,140,630	
Accumulated depreciation:	<u>(17,734,355)</u>	
Net:		59,406,275

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was: (105,140)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	2,714,927	
Compensated absences payable	134,437	
Capital leases payable	<u>73,716</u>	
Total:		<u>(2,923,080)</u>

Net assets of governmental activities - statement of net assets \$ 67,224,380

The accompanying notes are an integral part of this statement.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Facilities Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 12,560,083	\$ -	\$ -	\$ 12,560,083
Local Sources	15,410,852	-	-	15,410,852
Federal Revenue	3,728,369	-	804,821	4,533,190
Other State Revenue	5,653,782	-	369,652	6,023,434
Other Local Revenue	4,336,092	441,763	1,577,513	6,355,368
Total Revenues	<u>41,689,178</u>	<u>441,763</u>	<u>2,751,986</u>	<u>44,882,927</u>
Expenditures:				
Instruction	24,257,040	-	114,086	24,371,126
Instruction - Related Services	4,867,658	-	72,163	4,939,821
Pupil Services	3,588,476	-	1,427,100	5,015,576
Community Services	11,882	-	-	11,882
General Administration	2,698,142	3,736	-	2,701,878
Plant Services	3,741,953	906,928	688,819	5,337,700
Other Outgo	-	-	44,729	44,729
Debt Service:				
Principal	70,880	-	265,215	336,095
Interest	-	-	389,790	389,790
Total Expenditures	<u>39,236,031</u>	<u>910,664</u>	<u>3,001,902</u>	<u>43,148,597</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,453,147</u>	<u>(468,901)</u>	<u>(249,916)</u>	<u>1,734,330</u>
Other Financing Sources (Uses):				
Transfers In	-	333,739	281,428	615,167
Transfers Out	(281,428)	-	(333,739)	(615,167)
Total Other Financing Sources (Uses)	<u>(281,428)</u>	<u>333,739</u>	<u>(52,311)</u>	<u>-</u>
Net Change in Fund Balance	2,171,719	(135,162)	(302,227)	1,734,330
Fund Balance, July 1	5,740,546	1,060,598	2,310,851	9,111,995
Fund Balance, June 30	<u>\$ 7,912,265</u>	<u>\$ 925,436</u>	<u>\$ 2,008,624</u>	<u>\$ 10,846,325</u>

The accompanying notes are an integral part of this statement.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds \$ 1,734,330

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	1,188,710	
Depreciation expense	<u>(1,641,694)</u>	
Net		(452,984)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 336,095

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: (55,863)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: 4,735

Change in net assets of governmental activities - statement of activities \$ 1,566,313

The accompanying notes are an integral part of this statement.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT**STATEMENT OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS**

JUNE 30, 2008

	Agency Funds
ASSETS:	
Cash on Hand and in Banks	\$ 171,366
Store Inventories	21,569
Total Assets	<u>\$ 192,935</u>
LIABILITIES:	
Due to Grantor Governments	\$ 577
Due to Student Groups	192,358
Total Liabilities	<u>192,935</u>
NET ASSETS:	
Total Net Assets	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

A. Summary of Significant Accounting Policies

Valley Center-Pauma Unified School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Capital Facilities Fund. This fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

In addition, the District reports the following fund types:

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. The district has the following Agency Funds- Student Body, Workability, and Joint Use Project.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	5-15
Office Equipment	5-15
Other Equipment	5-15

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

f. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

i. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Excess of Expenditures Over Appropriations

As of June 30, 2008 expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Instruction	\$ 694,878
Community services	11,882
Debt service-principal	54,580

D. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$6,251,518 as of June 30, 2008). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$6,251,518. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$897,574 as of June 30, 2008) and in the revolving fund (\$52,500) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

4. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

5. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

E. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,129,331	\$ -	\$ -	\$ 4,129,331
Work in progress	-	917,292	-	917,292
Total capital assets not being depreciated	4,129,331	917,292	-	5,046,623
Capital assets being depreciated:				
Buildings and Improvements	66,631,076	-	-	66,631,076
Equipment	5,191,513	271,418	-	5,462,931
Total capital assets being depreciated	71,822,589	271,418	-	72,094,007
Less accumulated depreciation for:				
Buildings and Improvements	(12,673,435)	(1,437,359)	-	(14,110,794)
Equipment	(3,419,226)	(204,335)	-	(3,623,561)
Total accumulated depreciation	(16,092,661)	(1,641,694)	-	(17,734,355)
Total capital assets being depreciated, net	55,729,928	(1,370,276)	-	54,359,652
Governmental activities capital assets, net	\$ 59,859,259	\$ (452,984)	\$ -	\$ 59,406,275

Depreciation was charged to functions as follows:

Unallocated	\$ 1,641,694
	\$ 1,641,694

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2008 consisted of the following:

Due To Fund	Due From Fund	Amount
General Fund	General Fund	\$ 7,664
General Fund	Cafeteria Fund	14,646
General Fund	Adult Education Fund	41,179
Adult Education Fund	General Fund	33,361
Cafeteria Fund	General Fund	58,848
	Total	\$ 155,698

All amounts due are scheduled to be repaid within one year.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2008 consisted of the following:

Transfers From	Transfers To	Amount
General Fund	Deferred Maintenance Fund	\$ 190,000
General Fund	Adult Education Fund	33,362
General fund	Cafeteria Fund	58,066
Special Reserve Fund	Capital Facilities Fund	333,739
	Total	<u>\$ 615,167</u>

G. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

H. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2008 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 2,980,142	\$ -	\$ 265,215	\$ 2,714,927	\$ 268,572
Capital leases	144,596	-	70,880	73,716	73,716
Compensated absences *	139,172	-	4,735	134,437	134,437
Total governmental activities	<u>\$ 3,263,910</u>	<u>\$ -</u>	<u>\$ 340,830</u>	<u>\$ 2,923,080</u>	<u>\$ 476,725</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2008 are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2009	\$ 476,725	\$ 437,864	\$ 914,589
2010	271,929	485,148	757,077
2011	286,405	541,586	827,991
2012	279,763	600,345	880,108
2013	289,239	671,251	960,490
2014-2018	1,319,019	4,025,550	5,344,569
Totals	<u>\$ 2,923,080</u>	<u>\$ 6,761,744</u>	<u>\$ 9,684,824</u>

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2008 as follows:

<u>Year Ending June 30:</u>	
2009	\$ 76,665
Total Minimum Rentals	76,665
Less Amount Representing Interest	(2,949)
Net Minimum Lease Payments	<u>\$ 73,716</u>

I. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of June 30, 2008, as follows:

<u>Year Ending June 30,</u>	
2009	\$ 80,272
2010	80,272
2011	80,272
2012	80,272
Total Minimum Rentals	<u>\$ 321,088</u>

The District will receive no sublease rental revenues nor pay any contingent rentals associated with these leases.

J. Joint Ventures (Joint Powers Agreements)

The District participates in one joint powers agreement (JPA) entity, the San Diego County Schools Risk Management (SDCSRM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Combined condensed unaudited financial information of the District's share of the JPA for the year ended June 30, 2008 is as follows:

Total Assets	\$ 624,668
Total Liabilities	494,651
Total Fund Balance	130,017
 Total Cash Receipts	 2,459,527
Total Cash Disbursements	2,175,098
Net Change in Fund Balance	284,429

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

K. Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

PERS:

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-08 was 9.32% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2008, 2007 and 2006 were \$570,506, \$534,172 and \$526,468, respectively, and equal 100% of the required contributions for each year.

STRS:

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2008, 2007 and 2006 were \$1,691,991, \$1,672,494 and \$1,556,668, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$1,340,048.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

L. Postemployment Benefits Other Than Pension Benefits

The District provides postretirement health care benefits, as established by board policy, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service out of the last 11 years.

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on length of service and other factors. During the year ended June 30 2008, expenditures of \$200,401 were recognized for postretirement health care. These costs were funded on a pay-as-you-go basis. The District does not recognize a liability for future postemployment health care benefits because the amount cannot be reasonably determined.

M. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

N. GASB Statement No. 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the Valley Center-Pauma Unified School District beginning in the 2008-09 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

O. Adjustment to Beginning Net Assets

The District made several corrections to their capital assets during the fiscal year ended June 30, 2008, resulting in an adjustment to the beginning net assets of \$1,738,348.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

EXHIBIT B-1

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 10,869,312	\$ 11,284,040	\$ 12,560,083	\$ 1,276,043
Local Sources	16,058,131	15,615,357	15,410,852	(204,505)
Federal Revenue	3,281,014	3,628,867	3,728,369	99,502
Other State Revenue	5,122,740	5,836,003	5,653,782	(182,221)
Other Local Revenue	3,191,458	4,422,846	4,336,092	(86,754)
Total Revenues	<u>38,522,655</u>	<u>40,787,113</u>	<u>41,689,178</u>	<u>902,065</u>
Expenditures:				
Instruction	22,205,219	23,562,162	24,257,040	(694,878)
Instruction - Related Services	48,423,697	5,076,430	4,867,658	208,772
Pupil Services	3,400,372	3,609,297	3,588,476	20,821
Community Services	-	-	11,882	(11,882)
General Administration	2,745,840	3,292,897	2,698,142	594,755
Plant Services	3,698,476	3,770,083	3,741,953	28,130
Debt Service:				
Principal	-	16,300	70,880	(54,580)
Total Expenditures	<u>80,473,604</u>	<u>39,327,169</u>	<u>39,236,031</u>	<u>91,138</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(41,950,949)</u>	<u>1,459,944</u>	<u>2,453,147</u>	<u>993,203</u>
Other Financing Sources (Uses):				
Transfers Out	-	-	(281,428)	(281,428)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(281,428)</u>	<u>(281,428)</u>
Net Change in Fund Balance	(41,950,949)	1,459,944	2,171,719	711,775
Fund Balance, July 1	-	-	5,740,546	5,740,546
Fund Balance, June 30	<u>\$ (41,950,949)</u>	<u>\$ 1,459,944</u>	<u>\$ 7,912,265</u>	<u>\$ 6,452,321</u>

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

	Special Revenue Funds	Debt Service Fund Bond Interest & Redemption	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:				
Cash in County Treasury	\$ 433,825	\$ 601,980	\$ 153,875	\$ 1,189,680
Cash on Hand and in Banks	-	-	726,208	726,208
Cash in Revolving Fund	2,500	-	-	2,500
Accounts Receivable	186,910	-	1,327	188,237
Due from Other Funds	92,210	-	-	92,210
Stores Inventories	47,047	-	-	47,047
Total Assets	<u>\$ 762,492</u>	<u>\$ 601,980</u>	<u>\$ 881,410</u>	<u>\$ 2,245,882</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 181,433	\$ -	\$ -	\$ 181,433
Due to Other Funds	55,825	-	-	55,825
Total Liabilities	<u>237,258</u>	<u>-</u>	<u>-</u>	<u>237,258</u>
Fund Balance:				
Reserved Fund Balances:				
Reserve for Revolving Cash	2,500	-	-	2,500
Reserve for Stores Inventories	47,046	-	-	47,046
Designated Fund Balances:				
Designated for Unrealized Gains	-	601,980	-	601,980
Other Designated	373,225	-	881,410	1,254,635
Unreserved, reported in nonmajor:				
Special Revenue Funds	102,463	-	-	102,463
Total Fund Balance	<u>525,234</u>	<u>601,980</u>	<u>881,410</u>	<u>2,008,624</u>
Total Liabilities and Fund Balances	<u>\$ 762,492</u>	<u>\$ 601,980</u>	<u>\$ 881,410</u>	<u>\$ 2,245,882</u>

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds	Debt Service Fund Bond Interest & Redemption	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenues:				
Federal Revenue	\$ 804,821	\$ -	\$ -	\$ 804,821
Other State Revenue	363,744	5,908	-	369,652
Other Local Revenue	657,836	682,030	237,647	1,577,513
Total Revenues	<u>1,826,401</u>	<u>687,938</u>	<u>237,647</u>	<u>2,751,986</u>
Expenditures:				
Instruction	114,086	-	-	114,086
Instruction - Related Services	72,163	-	-	72,163
Pupil Services	1,427,100	-	-	1,427,100
Plant Services	688,819	-	-	688,819
Other Outgo	-	-	44,729	44,729
Debt Service:				
Principal	-	265,215	-	265,215
Interest	-	389,790	-	389,790
Total Expenditures	<u>2,302,168</u>	<u>655,005</u>	<u>44,729</u>	<u>3,001,902</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(475,767)</u>	<u>32,933</u>	<u>192,918</u>	<u>(249,916)</u>
Other Financing Sources (Uses):				
Transfers In	281,428	-	-	281,428
Transfers Out	-	-	(333,739)	(333,739)
Total Other Financing Sources (Uses)	<u>281,428</u>	<u>-</u>	<u>(333,739)</u>	<u>(52,311)</u>
Net Change in Fund Balance	(194,339)	32,933	(140,821)	(302,227)
Fund Balance, July 1	719,573	569,047	1,022,231	2,310,851
Fund Balance, June 30	<u>\$ 525,234</u>	<u>\$ 601,980</u>	<u>\$ 881,410</u>	<u>\$ 2,008,624</u>

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2008

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS:				
Cash in County Treasury	\$ 21,636	\$ 17,436	\$ 394,753	\$ 433,825
Cash in Revolving Fund	-	2,500	-	2,500
Accounts Receivable	24,906	157,537	4,467	186,910
Due from Other Funds	33,362	58,848	-	92,210
Stores Inventories	-	47,047	-	47,047
Total Assets	<u>\$ 79,904</u>	<u>\$ 283,368</u>	<u>\$ 399,220</u>	<u>\$ 762,492</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 20,711	\$ 131,810	\$ 28,912	\$ 181,433
Due to Other Funds	41,179	14,646	-	55,825
Total Liabilities	<u>61,890</u>	<u>146,456</u>	<u>28,912</u>	<u>237,258</u>
Fund Balance:				
Reserved Fund Balances:				
Reserve for Revolving Cash	-	2,500	-	2,500
Reserve for Stores Inventories	-	47,046	-	47,046
Designated Fund Balances:				
Other Designated	-	2,917	370,308	373,225
Unreserved, reported in nonmajor:				
Special Revenue Funds	18,014	84,449	-	102,463
Total Fund Balance	<u>18,014</u>	<u>136,912</u>	<u>370,308</u>	<u>525,234</u>
Total Liabilities and Fund Balances	<u>\$ 79,904</u>	<u>\$ 283,368</u>	<u>\$ 399,220</u>	<u>\$ 762,492</u>

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenues:				
Federal Revenue	\$ 23,750	\$ 781,071	\$ -	\$ 804,821
Other State Revenue	123,350	68,069	172,325	363,744
Other Local Revenue	15,617	624,567	17,652	657,836
Total Revenues	<u>162,717</u>	<u>1,473,707</u>	<u>189,977</u>	<u>1,826,401</u>
Expenditures:				
Instruction	114,086	-	-	114,086
Instruction - Related Services	72,163	-	-	72,163
Pupil Services	-	1,427,100	-	1,427,100
Plant Services	-	-	688,819	688,819
Total Expenditures	<u>186,249</u>	<u>1,427,100</u>	<u>688,819</u>	<u>2,302,168</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(23,532)</u>	<u>46,607</u>	<u>(498,842)</u>	<u>(475,767)</u>
Other Financing Sources (Uses):				
Transfers In	33,362	58,066	190,000	281,428
Total Other Financing Sources (Uses)	<u>33,362</u>	<u>58,066</u>	<u>190,000</u>	<u>281,428</u>
Net Change in Fund Balance	9,830	104,673	(308,842)	(194,339)
Fund Balance, July 1	8,184	32,239	679,150	719,573
Fund Balance, June 30	<u>\$ 18,014</u>	<u>\$ 136,912</u>	<u>\$ 370,308</u>	<u>\$ 525,234</u>

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR CAPITAL PROJECTS FUNDS

JUNE 30, 2008

	County School Facilities Fund	Blended Component Unit	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
ASSETS:			
Cash in County Treasury	\$ 153,875	\$ -	\$ 153,875
Cash on Hand and in Banks	-	726,208	726,208
Accounts Receivable	1,327	-	1,327
Total Assets	\$ 155,202	\$ 726,208	\$ 881,410
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Total Liabilities	-	-	-
Fund Balance:			
Designated Fund Balances:			
Other Designated	\$ 155,202	\$ 726,208	\$ 881,410
Total Fund Balance	155,202	726,208	881,410
Total Liabilities and Fund Balances	\$ 155,202	\$ 726,208	\$ 881,410

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	County School Facilities Fund	Capital Outlay Projects	Blended Component Unit	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
Revenues:				
Other Local Revenue	\$ 6,921	\$ 12,126	\$ 218,600	\$ 237,647
Total Revenues	<u>6,921</u>	<u>12,126</u>	<u>218,600</u>	<u>237,647</u>
Expenditures:				
Other Outgo	-	-	44,729	44,729
Total Expenditures	<u>-</u>	<u>-</u>	<u>44,729</u>	<u>44,729</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,921</u>	<u>12,126</u>	<u>173,871</u>	<u>192,918</u>
Other Financing Sources (Uses):				
Transfers Out	-	(333,739)	-	(333,739)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(333,739)</u>	<u>-</u>	<u>(333,739)</u>
Net Change in Fund Balance	6,921	(321,613)	173,871	(140,821)
Fund Balance, July 1	148,281	321,613	552,337	1,022,231
Fund Balance, June 30	<u>\$ 155,202</u>	<u>\$ -</u>	<u>\$ 726,208</u>	<u>\$ 881,410</u>

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUNDS

JUNE 30, 2008

	Student Body Fund	Workability	Joint Use Project	Total Agency Funds (See Exhibit A-7)
ASSETS:				
Cash on Hand and in Banks	\$ 159,298	\$ 11,491	\$ 577	\$ 171,366
Store Inventories	21,569	-	-	21,569
Total Assets	<u>\$ 180,867</u>	<u>\$ 11,491</u>	<u>\$ 577</u>	<u>\$ 192,935</u>
LIABILITIES:				
Due to Grantor Governments	\$ -	\$ -	\$ 577	\$ 577
Due to Student Groups	180,867	11,491	-	192,358
Total Liabilities	<u>180,867</u>	<u>11,491</u>	<u>577</u>	<u>192,935</u>
NET ASSETS:				
Total Net Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2008

On July 1, 2000, the Valley Center Union School District unified with Pauma Elementary School District and Valley Center High School from the Escondido Union High School District to become the Valley Center-Pauma Unified School District. The school district occupies approximately 300 square miles of San Diego County. There were no changes to the district boundaries in the current year. The district currently operates two high schools, one middle school, and four elementary schools. In addition, the district provides an adult education program and an independent study program. In April 2001, the district approved the charter for the All Tribes American Indian Charter School.

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term and Term Expiration</u>
Lori A. Johnson	President	Four year term Expires December 3, 2010
Don Martin	Vice President	Four year term Expires December 5, 2008
Wendy L. Zeugschmidt	Clerk	Four year term Expires December 5, 2008
Henry P. VanWyk, DVM	Member	Four year term Expires December 3, 2010
Douglas Dechairo, MD	Member	Four year term Expires December 3, 2010

Administration

Dr. Lou Obermeyer
Superintendent

Ken Clark
Assistant Superintendent

Peggy Johnson
Director of Personnel

Pamela S. Moe
Chief Business Official

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
TABLE D-1
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2008

	Second Period Report	Annual Report
Elementary:		
Kindergarten	247.04	248.47
Grades 1 through 3	870.86	873.96
Grades 4 through 6	860.82	864.13
Grades 7 and 8	643.84	644.05
Special education	86.21	86.72
Home and Hospital	-	0.11
Elementary totals	<u>2,708.77</u>	<u>2,717.44</u>
High School:		
Grades 9 through 12, regular classes	1,371.87	1,366.26
Special education	49.24	49.20
Continuation education	58.37	61.43
Home and Hospital	0.31	0.56
High school totals	<u>1,479.79</u>	<u>1,477.45</u>
Classes for adults:		
Concurrently enrolled	6.27	7.90
Adults enrolled, state apportioned	33.42	38.59
Independent study	0.13	0.14
ADA totals	<u>4,228.38</u>	<u>4,241.52</u>
	Hours of Attendance	
Summer School		
Elementary	2,673	
High School	1,444	

Average daily attendance is a measurement of the number of pupils attending classes of the district. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
 YEAR ENDED JUNE 30, 2008

TABLE D-2

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2007-08 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	35,000	36,000	38,840	180	-	Complied
Grade 1	49,000	50,400	50,825	180	-	Complied
Grade 2	49,000	50,400	50,610	180	-	Complied
Grade 3	49,000	50,400	50,610	180	-	Complied
Grade 4	52,500	54,000	59,620	180	-	Complied
Grade 5	52,500	54,000	59,655	180	-	Complied
Grade 6	52,500	54,000	59,645	180	-	Complied
Grade 7	52,500	54,000	59,784	180	-	Complied
Grade 8	52,500	54,000	59,784	180	-	Complied
Grade 9	N/A	64,800	64,814	180	-	Complied
Grade 10	N/A	64,800	64,814	180	-	Complied
Grade 11	N/A	64,800	64,814	180	-	Complied
Grade 12	N/A	64,800	64,814	180	-	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of Education Code Sections 46200 through 46206.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2008

TABLE D-3

General Fund	(Budget) 2009	2008	2007	2006
Revenues and other financial sources	\$ 37,992,326	\$ 41,689,178	\$ 40,374,127	\$ 37,291,655
Expenditures, other uses and transfers out	37,067,431	39,517,459	39,543,634	35,517,366
Change in fund balance (deficit)	924,895	2,171,719	830,493	1,774,289
Ending fund balance	\$ 8,837,160	\$ 7,912,265	\$ 5,740,546	\$ 4,940,053
Available reserves	\$ 6,303,643	\$ 5,378,748	\$ 2,666,966	\$ 2,589,006
Available reserves as a percentage of total outgo	17.0%	13.6%	6.7%	7.3%
Total long-term debt	\$ 2,446,355	\$ 2,923,080	\$ 3,263,910	\$ 4,011,030
Average daily attendance at P-2	4,192	4,228	4,351	4,458

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

The district's general fund balance has increased by \$4,776,500 over the past three years. The fiscal year 2008-09 budget projects an increase of \$924,895. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, other uses and transfers out.

Long-term debt has decreased by \$1,485,147 over the past three years.

Average daily attendance (ADA) has decreased by 249 over the past three years.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2008

TABLE D-4

	Adult Education Fund	Cafeteria Fund
June 30, 2008, annual financial and budget report fund balances	<u>\$ -</u>	<u>\$ 52,464</u>
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Accounts receivable understatement	18,014	106,579
Accounts payable understatement	<u>-</u>	<u>(22,131)</u>
Net adjustments and reclassifications	<u>18,014</u>	<u>84,448</u>
June 30, 2008, audited financial statement fund balances	<u>\$ 18,014</u>	<u>\$ 136,912</u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2008

TABLE D-5

The Valley Center-Pauma Unified School District chartered one school during the fiscal year.

<u>Charter Schools</u>	<u>Included In Audit?</u>
All-Tribes American Indian Charter School	No

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT**TABLE D-6****SCHEDULE OF EXCESS SICK LEAVE
YEAR ENDED JUNE 30, 2008**

The following disclosure is made for excess sick leave as that term is defined in subdivision (c) of Education Code Section 22170.5:

<u>Titles of Employees Exhibiting Excess Sick Leave</u>	<u>Is Excess Sick Leave Authorized By Employee's Contract?</u>	<u>Was Excess Sick Leave Found To Be Accrued For Employee?</u>	<u>Contract Authorizing Excess Sick Leave</u>	<u>Is Excess Sick Leave Authorized In Teachers' Contract?</u>
Superintendent	Yes	Yes	Superintendent's Contract	No

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008

TABLE D-7

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Program:			
Medi-Cal Billings *	93.778	-	\$ 20,092
Total U. S. Department of Health and Human Services			<u>20,092</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>			
Direct Program:			
Impact Aid - P.L. 81.874	84.041	-	1,758,551
Passed Through State Department of Education:			
Adult Education	84.002	13973	23,751
Title I	84.010	13797	415,332
Migrant Education	84.011	13174	202,210
Special Education *	84.027	13379	743,617
Vocational Education	84.048	13924	25,315
Indian Education	84.060	10011	71,970
Title II-EETT	84.138	14334	1,090
Workability	84.158	03410	92,539
Title V-Innovative Education	84.162	13159	8,930
Preschool *	84.173	03315	47,938
Title IV-Drug Free	84.186	13453	15,138
Foreign Language Grant	84.294A	5448	17,299
Title III-Immigrant Education	84.365A	14201	1,466
Title III-LEP	84.365A	14346	95,989
Title II-Teacher Quality	84.367	14341	202,156
Total Passed Through State Department of Education			<u>1,964,740</u>
Total U. S. Department of Education			<u>3,723,291</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Direct Program:			
Forest Reserve	10.655	-	8,736
Passed Through State Department of Education:			
National School Lunch Program *	10.555	03396	781,071
Total U. S. Department of Agriculture			<u>789,807</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,533,190</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Valley Center-Pauma Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Other Independent Auditor's Reports

Wilkinson Hadley King & Co. LLP
CPA's and Advisors
250 E. Douglas Ave
El Cajon, CA 92020
Tel 619-447-6700 Fax 619-447-6707

**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Trustees
Valley Center-Pauma Unified School District
Valley Center, California 92082

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Valley Center-Pauma Unified School District as of and for the year ended June 30, 2008, which collectively comprise the Valley Center-Pauma Unified School District's basic financial statements and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Valley Center-Pauma Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Valley Center-Pauma Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Valley Center-Pauma Unified School District's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Valley Center-Pauma Unified School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Valley Center-Pauma Unified School District's financial statements that is more than inconsequential will not be prevented by the Valley Center-Pauma Unified School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Valley Center-Pauma Unified School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley Center-Pauma Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Hadley King & Co., LLP

El Cajon, California
November 21, 2008

Wilkinson Hadley King & Co. LLP
CPA's and Advisors
250 E. Douglas Ave
El Cajon, CA 92020
Tel 619-447-6700 Fax 619-447-6707

Report on Compliance with Requirements Applicable
To each Major Program and on Internal Control over Compliance
In Accordance With OMB Circular A-133

Board of Trustees
Valley Center-Pauma Unified School District
Valley Center, California 92082

Members of the Board of Trustees:

Compliance

We have audited the compliance of Valley Center-Pauma Unified School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Valley Center-Pauma Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Valley Center-Pauma Unified School District's management. Our responsibility is to express an opinion on Valley Center-Pauma Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valley Center-Pauma Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Valley Center-Pauma Unified School District's compliance with those requirements.

In our opinion, Valley Center-Pauma Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Valley Center-Pauma Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Valley Center-Pauma Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valley Center-Pauma Unified School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Halley King & Co., LLP

El Cajon, California
November 21, 2008

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Auditor's Report on State Compliance

Board of Trustees
Valley Center-Pauma Unified School District
Valley Center, California 92082

Members of the Board of Trustees:

We have audited the basic financial statements of the Valley Center-Pauma Unified School District ("District") as of and for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2007-08*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	No
Regional Occupational Centers and Programs	6	Not Applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	Not Applicable
Morgan-Hart Class Size Reduction Program	7	Not Applicable
Instructional Materials:		
General Requirements	12	Yes
Grades K-8 Only	1	Yes
Grades 9-12 Only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not Applicable

GANN Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	3	Yes
Notice of Right to Elect California State Teachers		
Retirement System (CalSTRS) Membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable
Class Size Reduction Program (Including In Charter Schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Only One School Serving Grades K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Yes
Contemporaneous Records of Attendance, For Charter Schools	1	Not Applicable
Mode of Instruction, for Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study, For Charter Schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based		
Instruction, For Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based, For Charter Schools	3	Not Applicable

The term "Not Applicable" is used above to mean either that the District did not offer the program during the current fiscal year or that the program applies only to a different type of local education agency.

We did not perform testing for adult education because the adult education ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, Valley Center-Pauma Unified School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Valley Center-Pauma Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board of Trustees, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Bradley King & Co., LLP

El Cajon, California
November 21, 2008

Findings and Recommendations Section

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are
are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial
statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with section 510(a)
of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.027	Special Education
84.041	Impact Aid

Dollar threshold used to distinguish between
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

3. State Awards

Internal control over state programs:

One or more material weaknesses identified?	_____ Yes	<u> X </u> No
One or more significant deficiencies identified that are are not considered to be material weaknesses?	_____ Yes	<u> X </u> None Reported
Type of auditor's report issued on compliance for state programs:	<u>Unqualified</u>	

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

D. State Award Findings and Questioned Costs

Finding 2008-1 (40000)
Proposition 20 Lottery

Criteria or Specific Requirement

From the expenditures of the Proposition 20 restricted lottery allowance funds, select a sample and verify that they were for instructional materials as defined in subdivisions (h), (m), or (n) of Education Code Section 60010.

Condition

In our review of expenditures charged to Proposition 20, we noted some payroll expenses were charged to the program which does not meet the requirements as set forth in subdivisions (h), (m), or (n) of Education Code Section 60010.

Questioned Costs

\$7,665.22

Recommendation

We recommend the district adjust their restricted beginning balance in Proposition 20 lottery for the 2008-09 fiscal year to reflect an adjustment for the unallowable expenses which occurred during the 2007-08 fiscal year. In addition, we recommend the district implement policies to carefully review amounts charged to Proposition 20 Lottery to ensure the expenditures meet the requirements as set forth in subdivisions (h), (m) or (n) of Education Code Section 60010.

LEA's Response

The payroll expenditure charged to object 6300 was a result of a clerical error. The district has made the recommended adjustment and is implementing procedures to review all amounts charged to object 6300 at the end of the year to ensure that there are no expenses charged to the program which do not meet the requirements as set forth in Education Code Section 60010.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

Finding 2008-2 (40000)

After School Education and Safety Program

Criteria or Specific Requirement

Determine that the local education agency operating the After School Education and Safety Program is compliant with the state components for the after school program.

Condition

The district did not establish a policy regarding reasonable early daily release of pupils from the program. In review of attendance sheets for Pauma Elementary, pupils participating in the program were released early without documentation of the reason for early release. In addition, the number of days reported did not agree with sign in/sign out sheets.

Questioned Costs

For the period tested 1,245 days students served are questioned.

Recommendation

We recommend the District establish a policy regarding reasonable early release of pupils from the after school program. In addition, we recommend the District document the time in and out of the program in order to determine if elementary students participated the full day of the program. Finally, the district should carefully review all data prior to submission to the San Diego County Office of Education to ensure it is accurately reported.

LEA's Response

The district was contracted by the San Diego County Office of Education to operate the After School Education and Safety Program at Pauma Elementary School. While the district was in compliance with the provisions of the contract signed by both the County Office of Education and the District, it was brought to our attention that the program was not meeting the requirements of Ed Code during the course of our annual audit. We are working with the San Diego County Office of Education to restructure the program to meet all state requirements including establishing an early release policy along with new documentation procedures for students who are released early. We will carefully review all numbers submitted to the San Diego County Office of Education to ensure they are clerically accurate.

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>Finding 2007-1 (30000) Mello Roos Community Facilities District</p> <p>In our examination of the financial statements at year end, we noted the District has been reporting the Mello Roos Community Facilities District (CFD) as an "Agency" fund. As a result, the revenues and expenditures associated with the CFD have not been reflected in the financial statements of the District. For purposes of this report we have reclassified the CFD as a blended component unit of the District and have reported the financial activity as a capital projects fund.</p> <p>To be in compliance with the California School Accounting Manual's procedures for reporting of a Community Facilities District, we recommend the District implement Fund 49 in their accounting system and account for the financial transactions of the CFD in that fund. This will ensure all funds of the District are properly recorded in the Districts financial system and reported in their year end financial statements.</p>	<p>Implemented</p>	
<p>Finding 2007-2 (30000) Cafeteria Fund Inventory</p> <p>In our examination of the cafeteria fund inventory, we noted a significant number of items on the inventory were valued at prices that were, in some instances, more than three years old. It appears the inventory sheets being used to account for and price the inventory have not been updated for at least three years. As a result, the value of some inventory items were not correct. After subsequent review of the inventory items in question, we determined the error in the value was not material to require an adjustment to the financial statements.</p> <p>Although the errors noted were not material enough to require an adjustment to the inventory, we recommend that procedures be implemented that will ensure the process used for inventory valuation are reviewed and updated annually to ensure the correct value is reflected in the financial statements.</p>		

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2007-3 (30000) Student Body Funds - Valley Center Middle School</p> <p>In our examination of student body receipts at Valley Center Middle School, we noted there is no documentation for money received. The only supporting documentation are the deposit slips. As a result, we are unable to reconcile cash received with cash deposited to ensure all funds collected are properly deposited in a timely manner.</p> <p>We recommend that procedures be implemented that will require all cash receipts to have supporting documentation such as a cash transmittal form. We recommend the District have the school review the Student Body Accounting Manual prepared by FCMAT and implement the forms and procedures that are relevant to the school's student body funds.</p>	Implemented	
<p>Finding 2007-4 (50000) Federal Payroll Documentation</p> <p>In our review of payroll documentation for employees charged to Title I and Special Education, we noted the District obtained certifications for the employees; however, the certifications were not obtained semi-annually for 100% funded employees. The District only obtained annual certifications.</p> <p>We recommend the district implement procedures that will require all employees who are funded by federal programs to have semi-annual certifications completed timely and the documentation maintained for audit purposes.</p>	Implemented	
<p>Finding 2007-5 (40000) Instructional Minutes</p> <p>In our examination of the District's instructional minutes, we noted a clerical error in the calculation of minutes for grades 1 and 2. After removing the recess time from the instructional minutes schedule of the District, it was determined that grades 1 and 2 did not meet the minimum 50,400 annual minutes. Grades 1 and 2 had actual instructional minutes of 50,305 and were 95 minutes short of the minimum.</p>		

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>In order to not have any apportionment penalty as a result of being 95 minutes short of the minimum instructional minutes in grades 1 and 2, we recommend the District revise their 2007-08 instructional minutes for grades 1 and 2 and increase it by a minimum of 95 minutes to 50,495 and also implement the longer instructional minutes for the 2008-09 fiscal year. In addition, we recommend the District Office review and approve the instructional minutes schedule for each grade level to ensure they are in compliance with Education Code.</p> <p>Finding 2007-6 (40000) Kindergarten Continuance</p> <p>In our review of students continued in kindergarten after one full year, we noted the District was using an agreement form that had not been approved by the California Department of Education. As a result, those students were not eligible for apportionment funding for the 2006-07 year. This resulted in a reduction of average daily attendance reported at P2 of 6.30 and a reduction at the Annual period of 8.41.</p> <p>We recommend the District file amended P2 and Annual attendance reports and reduce the average daily attendance for kindergarten as stated above. In addition, we recommend the District begin utilizing a form that has been approved by the California Department of Education for students continuing in kindergarten for a second year.</p> <p>Finding 2007-7 (40000) K-3 Class Size Reduction</p> <p>In our review of the supporting documentation used to prepare the class size reduction Form J7-CSR, we noted that a clerical error caused the District to understate the students eligible for funding by one.</p> <p>We recommend the District file an amended Form J7-CSR and properly report the number of students eligible for funding.</p>	<p>Implemented</p> <p>Implemented</p> <p>Implemented</p>	

VALLEY CENTER-PAUMA UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2007-8 (10000) Attendance Reporting</p>		
<p>In our examination of the supporting documentation used to prepare the attendance reports submitted to the California Department of Education, we noted the independent study average daily attendance was included in the informational lines of the reports (line D-1) but were not included in the average daily attendance reported by the District on lines A-1 thru A-7. The District was under the impression that the average daily attendance generated by independent study would be funded based on the information on line D-1 and was not aware they needed to include the independent study average daily attendance on lines A-1 thru A-7. As a result, the District understated their P2 and Annual average daily attendance. As a result of our finding, we performed additional testing and determined the District also made the same mistake in prior fiscal years. We were able to recalculate the average daily attendance that should have been reported for the 2006-07, 2005-06, and 2004-05 fiscal years and determined the average daily attendance has been understated.</p>		
<p>We recommend the District amend their 2006-07 P2 and Annual attendance reports and increase the average daily attendance by the amounts shown above. We also recommend the District file amended 2005-06 and 2004-05 attendance reports and increase reported average daily attendance by the amounts shown above. In future years, we recommend the District include the average daily attendance generated by independent study on lines A-1 thru A-7 as well as on line D-1 of the attendance reports.</p>	<p>Implemented</p>	